

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF THE SOUTH HOPKINS)
WATER DISTRICT, OF HOPKINS AND CALDWELL)
COUNTIES, KENTUCKY FOR (1) A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER)
DISTRICT TO CONSTRUCT A WATERWORKS CON-) CASE NO. 8105
STRUCTION PROJECT, CONSISTING OF EXTEN-)
SIONS, ADDITIONS, AND IMPROVEMENTS TO)
THE EXISTING WATERWORKS SYSTEM OF THE)
DISTRICT; (2) APPROVAL OF THE PROPOSED)
PLAN OF FINANCING OF SAID PROJECT; AND)
(3) APPROVAL OF THE INCREASED WATER)
RATES PROPOSED TO BE CHARGED BY THE)
DISTRICT TO CUSTOMERS OF THE DISTRICT.)

O R D E R

Preface

On December 30, 1980, the South Hopkins Water District ("Applicant") filed an application with this Commission seeking a certificate of public convenience and necessity authorizing the construction of extensions, additions and other improvements to its water distribution system; approval of the proposed method of financing the project; and approval of proposed adjustments to its existing rates for providing water service. On June 15, 1981, the Commission issued an Interim Order in this matter approving the construction and financing of this project.

The construction project proposed by the Applicant and certified to by the Commission in its Interim Order will enable the South Hopkins Water District to serve approximately 556 additional customers. Based on current rates and estimated average usage of 3,500 gallons

per month, per customer, the revenues provided from these new customers is approximately \$61,222 on an annual basis. Moreover, to meet its debt service requirements and to provide for known increases in the cost of providing water service, the Applicant requested an increase in rates to produce an additional \$68,544 in revenues annually.

This case was set for hearing at the Commission's offices in Frankfort, Kentucky, on March 31, 1981, at 10:30 a.m., Eastern Standard Time. The Commission further required the Applicant to mail to each customer, at least twenty days prior to the date of the hearing, a typewritten or printed notice of the proposed rates and an estimate of the probable impact upon the customer's utility bill. The Consumer Intervention Division of the Attorney General's Office was permitted to intervene in the matter and participate in the proceedings. At the hearing, certain requests for additional information were made by the Commission's staff. The Applicant has responded to this request for information and the entire matter is now considered to be fully submitted for final determination by this Commission.

TEST PERIOD

The Applicant has selected the twelve-month period ending September 30, 1980, as the test year and has submitted tabulations of its actual revenues and expenses for this period including its pro forma adjustments thereto for the Commission's consideration in the determination of a rate adjustment.

REVENUES AND EXPENSES

Applicant proposed several adjustments to actual operating revenues and expenses as reflected in its comparative income statement for the twelve months ended September 30, 1980. The Commission finds these adjustments allowable and has accepted them for rate-making purposes with the following exceptions:

1. Purchased Water:

Applicant, in its computation of pro forma purchased water cost of \$99,868, failed to consider excessive line loss of 4.03% above the 15% maximum allowable by the Commission, and further, included in its calculation an \$.85 increase per thousand gallons to be charged by its supplier, the City of Dawson Springs, upon the completion of construction of the city's new water treatment plant. An additional factor to be considered in this computation is that the Applicant will have 556 new customers after completion of its extension program. Therefore, the Commission considers the following calculation of pro forma purchased water cost to be allowable:

1107 Customers:

(63,326.468 M gallons sold ÷ .85) x \$.85 per M gallons =	\$63,326.47
556 New Customers:	
(23,352.000 M gallons sold ÷ .85) x \$.85 per M gallons =	\$23,352.00
Total	<u>\$86,678.47</u>

2. Power Purchased for Pumping,
Transmission and Distribution - Supplies and Expenses,
Office Supplies and Other Expenses:

Applicant made a pro forma adjustment to these three operating expense accounts based on a 10% inflation factor without providing documentary evidence supporting the adjustment.

The increase was considered to be speculative, at best, and it was determined by the Commission not to be a reasonable, known and measurable adjustment to the following test year expenses and is, therefore, denied:

Power Purchased for Pumping	\$405.00
Transmission and Distribution - Operations Supplies and Expenses	756.00
Office Supplies and Other Expenses	515.00

3. Operation-Maintenance, Accounting and Administrative Salaries:

Exhibit N/1-2 entitled Comparative Income Statement, which accompanied Applicant's rate application, filed on December 30, 1980, projected pro forma operating salaries and fees of \$37,800. As an addendum to the original application, Applicant submitted a schedule of projected wages for the period April 1, 1981, through March 31, 1982, in the amount of \$41,579. The Commission has evaluated each segment of the total wage cost and, therefore, considers the following salaries and fees allowable for rate-making purposes:

Operations and Maintenance Labor	\$12,480
Part-Time Maintenance Labor	1,742
Office Manager	10,400
Office Assistant	6,157
Commissioner's Fees	10,800
	<u>\$41,579</u>

4. Payroll Taxes:

Pursuant to a request by the Commission's staff, payroll taxes, based on pro forma operating wages of \$30,779, were re-computed and filed in the record by Applicant's accountant. The Commission concurs with Applicant's computation of \$2,639.

5. Outside Services Employed:

An analysis of the operating expense Account No. 923, Outside

Services Employed, indicated that the following costs were incurred during the test period: accountant's fee for preparing Applicant's December 31, 1979, financial statements, \$1,050; rate case expenses pertaining to Case No. 7481, \$1,846. Applicant's attorney also filed rate case expenses totaling \$4,204 with regard to the pending proceedings, Case No. 8105.

The Commission has considered all components of cost as outlined above and considers the following allowable:

Outside Services Employed	\$1,050
Rate Case Expenses:	
Case No. 7481	\$1,846
Case No. 8105	4,204
	<u>\$6,050</u> ÷ 3 years = \$2,017

6. Depreciation Expense:

The Commission is of the opinion that the allowance for depreciation expense should be computed on the basis of original cost of utility plant in service less contributions in aid of construction. The allowable depreciation expense adjustment of \$33,773 was computed as follows:

Plant in service of \$2,625,822 less contributions in aid of construction of \$1,274,886 x 2.5% = \$33,773.

7. Uncollectible Accounts:

The Commission's allowance for the provision for uncollectible accounts was computed on the basis of one percent of gross water sales of \$295,661.

Therefore, the Applicant's adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Water Sales	\$154,046	\$ 61,222	\$215,268
Operating Expenses	127,448	74,075	201,523
Net Operating Income	\$ 26,598	\$(12,853)	\$ 13,745
Other Income	6,447	-0-	6,447
Interest Expense	22,950	38,950	61,900
Net Income (Loss)	\$ 10,095	\$(51,803)	\$(41,708)

DEBT SERVICE COVERAGE

Applicant's rates, as proposed, produce total operating revenue of approximately \$283,812. Moreover, Applicant had other income during the test year in the amount of \$6,447.

Applicant's adjusted annual debt service cost, following the financing approved in the Commission's Interim Order dated June 15, 1981, is \$78,349. Therefore, the debt service coverage produced by Applicant's proposed rates from the adjusted test period sales volume is 1.13 X which is calculated as follows:

Adjusted Water Sales	\$283,812
Add:	
Other Income	6,447
Subtotal	\$290,259
Less:	
Adjusted Operating Expenses	201,523
Margin	<u>\$ 88,736</u>
Margin	\$ 88,736
÷ Debt Service Cost	78,349
Debt Service Coverage	<u>1.13X</u>

The Commission is, therefore, of the opinion that the proposed rates should be approved as the revenues generated will be sufficient to provide the necessary funds to pay Applicant's operating expenses and improve its financial position.

FINDINGS IN THIS MATTER

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds that the rates

prescribed and set forth in Appendix A attached hereto and made a part hereof should produce gross annual revenues of approximately \$283,812 and are the fair, just and reasonable rates to be charged for water service rendered by Applicant on and after the date of the issuance of the water revenue bonds.

The Commission further concludes that gross annual revenues in the amount of \$290,259 are necessary and will permit the Applicant to meet its adjusted operating expenses and provide a 1.13 coverage of its annual debt service cost.

ORDERS IN THIS MATTER

The Commission on the basis of the matters hereinbefore set forth and the evidentiary record in this case,

HEREBY ORDERS that the rates prescribed and set forth in Appendix A attached hereto and made a part hereof, are hereby fixed as the fair, just and reasonable rates of the South Hopkins Water District to become effective for water service rendered on and after the date of the issuance of the water revenue bonds.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission, within 30 days after the date of the issuance of the water revenue bonds, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Applicant's rules and regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 17th day of July, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Catherine Randall
Vice Chairman

Jim Hargan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8105 DATED JULY 17, 1981.

The following rates are prescribed for customers served by South Hopkins Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES:

A. Minimum Rates Based on Size Connections

The following minimum rates shall apply to the respective size water connections for the respective minimum quantities of water per month applicable to such size connections:

<u>Size of Water Meter Connection</u>	<u>Number of Gallons of Water Per Month to be Provided for the Minimum Rate</u>	<u>Minimum Monthly Water Rate Per Connection</u>
5/8 inch x 3/4 inch	1,000	\$ 5.50
3/4 inch	5,000	15.00
1 inch	10,000	28.50
2 inch	20,000	49.50
3 inch	50,000	97.50

B. Meter Rates for Water Usage

Subject to the minimum monthly water rates specified above, the following metered charges shall be made to customers of the District for each 1,000 gallons of water consumption per month based on the size of connections:

Number of Gallons
of Water Per Month

Monthly Charge for
1,000 Gallons

5/8 inch x 3/4 inch

First	1,000 gallons	\$ 5.50 per 1,000 gallons (subject to Minimum Monthly Rate specified above)
Next	9,000 gallons	2.50
Next	10,000 gallons	2.00
Next	30,000 gallons	1.60
All Over	50,000 gallons	1.00

3/4 Inch

First	5,000 gallons	\$15.00 (Minimum Monthly Charge)
Next	5,000 gallons	2.50
Next	10,000 gallons	2.00
Next	30,000 gallons	1.60
All Over	50,000 gallons	1.00

1 Inch

First	10,000 gallons	\$28.50 (Minimum Monthly Charge)
Next	10,000 gallons	2.00
Next	30,000 gallons	1.60
All Over	50,000 gallons	1.00

2 Inch

First	20,000 gallons	\$49.50 (Minimum Monthly Charge)
Next	30,000 gallons	1.60
All Over	50,000 gallons	1.00

3 Inch

First	50,000 gallons	\$97.50 (Minimum Monthly Charge)
All Over	50,000 gallons	1.00

Whenever the minimum monthly charge is in excess of the total metered charge, the minimum shall apply. Whenever the total metered charge is in excess of the prescribed minimum monthly charge, the metered charge shall apply.